



EHLERS
LEADERS IN PUBLIC FINANCE

August 21, 2018

Pre-Sale Report for

City of Northfield, Minnesota

\$1,765,000 General Obligation Bonds, Series 2018B



Prepared by:

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And

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Executive Summary of Proposed Debt

Proposed Issue:	\$1,765,000 General Obligation Bonds, Series 2018B (the “Bonds”)
Purposes:	<p>The proposed bond issue includes financing for the \$4.6 million 2018 Division and Seventh Street Reconstruction, Washington Street Mill and Overlay, and Various City Parking Lots project. The Bonds are sized to finance what remains net of approximately \$2.8 million in utility and Municipal State Aid revenues funding the projects.</p> <p>For statutory purposes, the Bonds are split between two purposes:</p> <ul style="list-style-type: none"> • \$1,515,000 Improvement Projects portion for the Reconstruction and Mill and Overlay projects. Debt service will be paid over the course of ten years from special assessments and tax levy. • \$250,000 Tax Abatement Project portion for the City Parking Lots projects. Debt service will be paid over the course of ten years from a tax abatement levy.
Authority:	<p>The Bonds are being issued pursuant to City Charter and Minnesota Statutes, Chapters:</p> <ul style="list-style-type: none"> • 429 (Improvement Projects portion) • 469 (Abatement Project portion) • 475 (General Bonding authority) <p>The Bonds will be general obligations of the City for which its full faith, credit and taxing powers are pledged. Because the City is assessing at least 20% of the financed Improvement Projects cost, the Improvement Projects portion of the Bonds can be a general obligation without a referendum and will not count against the City’s debt limit.</p> <p>Under the Tax Abatement statute, the city can pledge its general obligation to finance public improvements. The amount of property taxes abated in any year for the Bonds, together with any outstanding annual abatements, may not exceed 10% of the City's net tax capacity or \$200,000, whichever is greater. The Abatement portion of the Bonds, together with the existing abatements pledged toward the 2014A Bonds, are anticipated to carry a maximum annual abatement of approximately \$260,000. The City’s Pay 2018 Abatement Limit is \$1,508,453, leaving over \$1.2 million in unused annual abatement capacity.</p> <p>The City Council will consider establishing the new abatement after a public hearing on August 21, 2018.</p>
Term/Call Feature:	<p>The Bonds are being issued for a term of 10-years, three-months. Principal on the Bonds will be due on February 1 in the years 2020 through 2029. Interest is payable every six months beginning August 1, 2019. The Bonds will be subject to prepayment at the discretion of the City on February 1, 2027 or any date thereafter.</p>
Bank Qualification:	<p>Together with the 2018A Bonds, the City is expecting to issue no more than \$10,000,000 in tax exempt debt during the calendar year and will be able to designate the Bonds as “bank qualified” obligations. Bank qualified status broadens the market for the Bonds, which can result in lower interest rates.</p>



<p>Rating:</p>	<p>The City’s most recent bond issues were rated by Standard & Poor’s. The current ratings on those bonds are “AA.” The City will request a new rating for the Bonds.</p> <p>If the winning bidder on the Bonds elects to purchase bond insurance, the rating for the issue may be higher than the City’s bond rating in the event that the bond rating of the insurer is higher than that of the City.</p>
<p>Basis for Recommendation:</p>	<p>We have based this pre-sale recommendation on our understanding of the City’s fiscal condition, your objectives, our advisory relationship, characteristics of various municipal financing options, and the City’s desire to reduce future interest costs when possible. We believe the proposed General Obligation Bonds financing, including the competitive sale approach described below, to be a suitable option based on:</p> <ul style="list-style-type: none"> • The expectation this form of financing will provide the overall lowest cost of funds while also meeting the City’s objectives for term, structure and optional redemption, • The nature and timing of the projects being financed, • The City’s current Capital Improvements Plan which identified issuance of bonds to finance these projects, and • Conformity with the City’s debt policy, current project financing practice, and best practices published by the Government Finance Officers Association (GFOA)
<p>Method of Sale/Placement:</p>	<p>To obtain the lowest interest cost to the City, we will solicit competitive bids for the purchase of the Bonds from national underwriters and banks. We will include an allowance for discount bidding in the terms of the issue equal to 1.20% of the principal amount. The discount is treated as an interest item and provides the underwriter with all or a portion of their compensation in the transaction. If the Bonds are purchased at a price greater than the minimum bid amount (maximum discount), the unused allowance may be used to lower the borrowing amount.</p> <p>Premium Pricing Structure: Under current market conditions, most investors in municipal bonds prefer “premium” pricing structures. A premium is achieved when the coupon for any maturity (the interest rate paid by the issuer) exceeds the yield to the investor, resulting in a price paid that is greater than the face value of the bonds. The sum of the amounts paid in excess of face value is considered “reoffering premium.” The underwriter of the bonds may retain a portion of the reoffering premium as their compensation (or “discount”) and will pay the remainder of the premium to the City as additional proceeds of the issue.</p> <p>The amount of premium can be restricted in the bid specifications. Be advised restrictions on premium may result in fewer bids. Ehlers will identify appropriate premium restrictions for the Bonds intended to achieve the City’s financing objectives. For this issue of Bonds, we have been directed to use any net premium to reduce the size of the issue to target only the appropriate level of proceeds necessary for the projects. The resulting adjustment will not change the pricing, but may slightly change the true interest cost of the issue.</p>
<p>Review of Existing Debt:</p>	<p>We have reviewed all outstanding indebtedness for the City and find that there are no viable refunding opportunities at this time. We will continue to monitor the market and the call dates for the City’s outstanding debt and will alert you to any future refunding opportunities.</p>



Continuing Disclosure:	The City will be agreeing to provide certain updated Annual Financial Information and its Audited Financial Statement annually, as well as providing notices of the occurrence of certain reportable events to the Municipal Securities Rulemaking Board (the “MSRB”), as required by rules of the Securities and Exchange Commission (SEC). The City is already obligated to provide such reports for its existing bonds and has contracted with Ehlers to prepare and file the reports.
Arbitrage Monitoring:	Because the Bonds are tax-exempt obligations, the City must ensure compliance with certain Internal Revenue Service (IRS) rules throughout the life of the issue. These rules apply to all gross proceeds of the issue, including initial bond proceeds and investment earnings in construction, escrow, debt service, and any reserve funds. How issuers spend bond proceeds and how they track interest earnings on funds (arbitrage/yield restriction compliance) are common subjects of IRS inquiries. Your specific responsibilities will be detailed in the Tax Certificate prepared by your Bond Attorney and provided at closing. You have retained Ehlers to assist you with compliance with these rules.
Risk Factors:	Special Assessments: The City has levied \$394,528 in assessments for the Improvements Projects. For the Improvements Project portion of the Bonds, we have assumed \$158,182 of the project expense will be funded from pre-paid special assessments. Further, we have assumed that the remaining \$236,346 of assessments will be collected as levied over 2019 to 2028. If the City receives a significant amount of additional pre-paid assessments or does not collect the remaining assessments, it may need to adjust future levies to make up for the lost revenue.
Other Service Providers:	<p>This debt issuance will require the engagement of other public finance service providers. This section identifies those other service providers, so Ehlers can coordinate their engagement on your behalf. Where you have previously used a particular firm to provide a service, we have assumed that you will continue that relationship. Fees charged by these service providers will be paid from proceeds of the obligation, unless you notify us that you wish to pay them from other sources. Our pre-sale bond sizing includes a good faith estimate of these fees, but the final fees may vary slightly. If you have any questions pertaining to the identified service providers or their role, or if you would like to use a different service provider for any of the listed services please contact us.</p> <p>Bond Counsel: Kennedy & Graven, Chartered</p> <p>Paying Agent: Bond Trust Services Corporation</p> <p>Rating Agency: Standard & Poor's Global Ratings (S&P)</p>
Summary:	<p>The decisions to be made by the Council are as follows:</p> <ul style="list-style-type: none"> • Accept or modify the financing assumptions described in this report, and • Adopt the resolution attached to this report.

This presale report summarizes our understanding of the City’s objectives for the structure and terms of this financing as of this date. As additional facts become known or capital markets conditions change, we may need to modify the structure and/or terms of this financing to achieve results consistent with the City’s objectives.



Proposed Debt Issuance Schedule

Pre-Sale Review by City Council:	August 21, 2018
Distribute Official Statement:	Week of September 4, 2018
Conference Call with Rating Agency:	Week of September 4, 2018
City Council Meeting to Award Sale of the Bonds:	September 18, 2018
Estimated Closing Date:	October 11, 2018

Attachments

Estimated Sources and Uses of Funds

Estimated Debt Service Schedule

Resolution Authorizing Ehlers to Proceed With Bond Sale

Ehlers Contacts

Municipal Advisors:	Nick Anhut	(651) 697-8507
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Disclosure Coordinator:	Emily Wilkie	(651) 697-8588
Financial Analyst:	Alicia Gage	(651) 697-8551

The Preliminary Official Statement for this financing will be sent to the City Council at their home or e-mail address for review prior to the sale date.



City of Northfield, Minnesota

\$1,765,000 General Obligation Bonds, Series 2018B

Issue Summary

Assuming Current GO BQ "AA" Market Rates plus 25bps

Total Issue Sources And Uses

Dated 10/11/2018 | Delivered 10/11/2018

	Improvements	Tax Abatement	Issue Summary
Sources Of Funds			
Par Amount of Bonds	\$1,515,000.00	\$250,000.00	\$1,765,000.00
Prepaid Assessments	158,182.00	-	158,182.00
Total Sources	\$1,673,182.00	\$250,000.00	\$1,923,182.00
Uses Of Funds			
Total Underwriter's Discount (1.200%)	18,180.00	3,000.00	21,180.00
Costs of Issuance	36,480.18	6,019.82	42,500.00
Deposit to Project Construction Fund	1,615,920.38	239,688.62	1,855,609.00
Rounding Amount	2,601.44	1,291.56	3,893.00
Total Uses	\$1,673,182.00	\$250,000.00	\$1,923,182.00

City of Northfield, Minnesota

\$1,515,000 General Obligation Bonds, Series 2018B

Improvements

Assuming Current GO BQ "AA" Market Rates plus 25bps

Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	105% of Total	Assessments	Levy/(Surplus)
02/01/2019	-	-	-	-	-	-	-
02/01/2020	130,000.00	2.000%	51,983.96	181,983.96	191,083.16	35,451.90	155,631.26
02/01/2021	145,000.00	2.150%	37,217.50	182,217.50	191,328.38	34,270.18	157,058.20
02/01/2022	145,000.00	2.300%	34,100.00	179,100.00	188,055.00	33,088.44	154,966.56
02/01/2023	145,000.00	2.450%	30,765.00	175,765.00	184,553.25	31,906.72	152,646.53
02/01/2024	150,000.00	2.600%	27,212.50	177,212.50	186,073.13	30,724.98	155,348.15
02/01/2025	155,000.00	2.700%	23,312.50	178,312.50	187,228.13	29,543.26	157,684.87
02/01/2026	155,000.00	2.800%	19,127.50	174,127.50	182,833.88	28,361.52	154,472.36
02/01/2027	160,000.00	2.900%	14,787.50	174,787.50	183,526.88	27,179.80	156,347.08
02/01/2028	165,000.00	3.000%	10,147.50	175,147.50	183,904.88	25,998.06	157,906.82
02/01/2029	165,000.00	3.150%	5,197.50	170,197.50	178,707.38	24,816.34	153,891.04
Total	\$1,515,000.00	-	\$253,851.46	\$1,768,851.46	\$1,857,294.03	\$301,341.20	\$1,555,952.83

Significant Dates

Dated	10/11/2018
First Coupon Date	8/01/2019

Yield Statistics

Bond Year Dollars	\$9,077.92
Average Life	5.992 Years
Average Coupon	2.7963625%
Net Interest Cost (NIC)	2.9966287%
True Interest Cost (TIC)	3.0087229%
Bond Yield for Arbitrage Purposes	2.7851532%
All Inclusive Cost (AIC)	3.4689459%

City of Northfield, Minnesota

\$236,346 General Obligation Bonds, Series 2018B

Assessments

2.00% over TIC - Equal Principal

Assessments

Date	Principal	Coupon	Interest	Total P+I
12/31/2019	23,634.60	5.000%	11,817.30	35,451.90
12/31/2020	23,634.60	5.000%	10,635.58	34,270.18
12/31/2021	23,634.60	5.000%	9,453.84	33,088.44
12/31/2022	23,634.60	5.000%	8,272.12	31,906.72
12/31/2023	23,634.60	5.000%	7,090.38	30,724.98
12/31/2024	23,634.60	5.000%	5,908.66	29,543.26
12/31/2025	23,634.60	5.000%	4,726.92	28,361.52
12/31/2026	23,634.60	5.000%	3,545.20	27,179.80
12/31/2027	23,634.60	5.000%	2,363.46	25,998.06
12/31/2028	23,634.60	5.000%	1,181.74	24,816.34
Total	\$236,346.00	-	\$64,995.20	\$301,341.20

Significant Dates

Filing Date	1/01/2019
First Payment Date	12/31/2019

City of Northfield, Minnesota

\$250,000 General Obligation Bonds, Series 2018B

Tax Abatement

Assuming Current GO BQ "AA" Market Rates plus 25bps

Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	105% Overlevy
02/01/2019	-	-	-	-	-
02/01/2020	20,000.00	2.000%	8,577.50	28,577.50	30,006.38
02/01/2021	25,000.00	2.150%	6,170.00	31,170.00	32,728.50
02/01/2022	25,000.00	2.300%	5,632.50	30,632.50	32,164.13
02/01/2023	25,000.00	2.450%	5,057.50	30,057.50	31,560.38
02/01/2024	25,000.00	2.600%	4,445.00	29,445.00	30,917.25
02/01/2025	25,000.00	2.700%	3,795.00	28,795.00	30,234.75
02/01/2026	25,000.00	2.800%	3,120.00	28,120.00	29,526.00
02/01/2027	25,000.00	2.900%	2,420.00	27,420.00	28,791.00
02/01/2028	25,000.00	3.000%	1,695.00	26,695.00	28,029.75
02/01/2029	30,000.00	3.150%	945.00	30,945.00	32,492.25
Total	\$250,000.00	-	\$41,857.50	\$291,857.50	\$306,450.38

Significant Dates

Dated	10/11/2018
First Coupon Date	8/01/2019

Yield Statistics

Bond Year Dollars	\$1,496.39
Average Life	5.986 Years
Average Coupon	2.7972341%
Net Interest Cost (NIC)	2.9977167%
True Interest Cost (TIC)	3.0095318%
Bond Yield for Arbitrage Purposes	2.7851532%
All Inclusive Cost (AIC)	3.4702406%

IRS Form 8038

Net Interest Cost	2.7972341%
Weighted Average Maturity	5.986 Years



City of Northfield, Minnesota

\$1,765,000 General Obligation Bonds, Series 2018B

Issue Summary

Assuming Current GO BQ "AA" Market Rates plus 25bps

Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	105% of Total	Assessments	Levy/(Surplus)
02/01/2019	-	-	-	-	-	-	-
02/01/2020	150,000.00	2.000%	60,561.46	210,561.46	221,089.53	35,451.90	185,637.63
02/01/2021	170,000.00	2.150%	43,387.50	213,387.50	224,056.88	34,270.18	189,786.70
02/01/2022	170,000.00	2.300%	39,732.50	209,732.50	220,219.13	33,088.44	187,130.69
02/01/2023	170,000.00	2.450%	35,822.50	205,822.50	216,113.63	31,906.72	184,206.91
02/01/2024	175,000.00	2.600%	31,657.50	206,657.50	216,990.38	30,724.98	186,265.40
02/01/2025	180,000.00	2.700%	27,107.50	207,107.50	217,462.88	29,543.26	187,919.62
02/01/2026	180,000.00	2.800%	22,247.50	202,247.50	212,359.88	28,361.52	183,998.36
02/01/2027	185,000.00	2.900%	17,207.50	202,207.50	212,317.88	27,179.80	185,138.08
02/01/2028	190,000.00	3.000%	11,842.50	201,842.50	211,934.63	25,998.06	185,936.57
02/01/2029	195,000.00	3.150%	6,142.50	201,142.50	211,199.63	24,816.34	186,383.29
Total	\$1,765,000.00	-	\$295,708.96	\$2,060,708.96	\$2,163,744.41	\$301,341.20	\$1,862,403.21

Significant Dates

Dated	10/11/2018
First Coupon Date	8/01/2019

Yield Statistics

Bond Year Dollars	\$10,574.31
Average Life	5.991 Years
Average Coupon	2.7964859%
Net Interest Cost (NIC)	2.9967827%
True Interest Cost (TIC)	3.0088374%
Bond Yield for Arbitrage Purposes	2.7851532%
All Inclusive Cost (AIC)	3.4691291%